

Message Text

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ACTION EA-12

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TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
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FM AMEMBASSY TAIPEI
TO SECSTATE WASHDC 8575
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AMEMBASSY SEOUL
USLO PEKING

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E.O.11652: N/A
TAGS : EFIN, TW
SUBJECT : U.S. DOLLAR FORWARD MARKET

REF : TAIPEI 5315

1. THE CENTRAL BANK OF CHINA (CBC) NOTIFIED LOCAL AND FOREIGN BANKS YESTERDAY THAT THE U.S. DOLLAR FORWARD MARKET WOULD BEGIN OPERATIONS TODAY, AUGUST 11. REFTEL ERRONEOUSLY REPORTED THAT ONLY LOCAL BANKS WERE NOTIFIED; ACTUALLY, LOCAL AND FOREIGN BANK BRANCHES WERE NOTIFIED. IN ALL, 24 BANKS, INCLUDING FOREIGN BANK BRANCHES, ARE AUTHORIZED FOREIGN EXCHANGE BANKS AND WILL PARTICIPATE IN THE U.S. DOLLAR FORWARD MARKET. INITIAL RATES OF EXCHANGE WERE REPORTED IN REFTEL; A CBC SPOKESMAN TOLD NEWS REPORTERS THAT FUTURE FORWARD EXCHANGE RATES WILL BE BASED ON THE EFFECTIVE EXCHANGE RATE OF A BASKET OF CURRENCIES, AND POSTED DAILY BY THE CBC.

2. AS IS THE CASE WITH THE EXISTING FORWARD MARKET FOR
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SEVERAL OTHER CURRENCIES, FORWARD TRANSACTIONS INVOLVING U.S. DOLLARS WILL BE LIMITED TO EXPORT AND IMPORT TRANSACTIONS ONLY. THE AMOUNT OF AN INDIVIDUAL PURCHASE OR SALE MUST BE AT LEAST U.S. 5,000 DOLLARS AND CANNOT EXCEED THE PRICE OF THE COMMODITY TO BE EXPORTED OR IMPORTED. CASES INVOLVING MORE THAN U.S. 500,000 DOLLARS MUST BE APPROVED BY THE CBC. ALL AUTHORIZED

FOREIGN EXCHANGE BANKS ARE TO REPORT FORWARD TRANSACTIONS TO THE CBC WITHIN ONE DAY.

3. A DEPOSIT OF 5 PERCENT OF THE TRANSACTION AMOUNT IS TO BE MADE AT THE AUTHORIZED BANK BY THE BUYER OR SELLER OF FORWARD DOLLARS. TRADERS WHO DO NOT COMPLY WITH THE TERMS OF THEIR FORWARD CONTRACTS MAY HAVE TO FORFEIT THEIR DEPOSITS AND WILL BE REQUIRED TO MAKE LARGER DEPOSITS FOR FURTHER TRANSACTIONS; MORE THAN TWO VIOLATIONS COULD RESULT IN THE LOSS OF FORWARD MARKET PRIVILEGES. TRADERS WISHING TO BUY U.S. DOLLARS SHOULD PRESENT AN IMPORT LICENSE AND THOSE WISHING TO SELL DOLLARS SHOULD SHOW A LETTER OF CREDIT, D/A, OR D/P, ALONG WITH AN EXPORT PERMIT. IF THESE DOCUMENTS ARE NOT AVAILABLE, CONTRACTS, LETTERS OR CABLES VERIFYING THE PROPOSED EXPORT OR IMPORT MAY BE SUBMITTED FOR REVIEW BY THE FOREIGN EXCHANGE BANK.

4. SUDDEN ANNOUNCEMENT OF OPENING OF FORWARD MARKET CAUGHT BANKERS AND TRADERS HERE BY SURPRISE. OFFICIAL AT HUA NAN BANK TOLD EMBASSY THIS MORNING THAT HE WAS UNAWARE OF THE ANNOUNCEMENT OF THE NEW U.S. DOLLAR MARKET. U.S. BANK BRANCH MANAGER TOLD EMBASSY HE WAS NOTIFIED AT 7 P. M. LAST NIGHT THAT HIS BANK SHOULD BE PREPARED TO OPEN A FORWARD MARKET AT 9 A.M. TODAY. REGULATIONS GOVERNING THE
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OPERATION OF THE MARKET WERE DELIVERED TO HIM AT 8:30 A.M., 30 MINUTES BEFORE THE MARKET WAS SCHEDULED TO OPEN AND THE FORWARD RATES FOR THE MARKET WERE NOT ANNOUNCED UNTIL 10 A.M. BANKERS SPECULATE THAT A REVALUATION MAY BE IMMINENT, POSSIBLY OVER THE WEEKEND.

COMMENT: IF THE PURPOSE OF THE OPENING OF THE U.S. DOLLAR FORWARD MARKET WAS TO PAVE THE WAY FOR ANOTHER REVALUATION, THE REVALUATION PROBABLY WILL NOT TAKE PLACE THIS WEEKEND. BANKERS AND TRADERS ALIKE ARE UNFAMILIAR WITH THE NEW MARKET AND EXPORTERS WILL NOT HAVE TIME TO COVER THEMSELVES IN THE SHORT TIME REMAINING BEFORE THE WEEKEND. BANKERS REPORT THAT FEW FORWARD CONTRACTS WERE SOLD TODAY (FRIDAY, AUGUST 11), SINCE MOST TRADERS SIMPLY DO NOT UNDERSTAND THE WORKINGS OF THE FORWARD MARKET. THE FORWARD MARKET OPERATIONS IN OTHER FOREIGN CURRENCIES WERE VERY LIMITED IN SCOPE AND HAVE NOT PREPARED FINANCIAL AND TRADING FIRMS FOR THE U.S. DOLLAR MARKET. UNGER

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